

AR79

file



**COLUMBIA  
CELLULOSE  
COMPANY, LIMITED**  
ANNUAL REPORT 1965

## BOARD OF DIRECTORS

HAROLD BLANCKE	PAUL M. MARSHALL
PETER H. CONZE	EDWIN C. McDONALD
JAMES R. KENNEDY	ROBINSON ORD
C. C. LOCKE, Q.C.	HON. JAMES SINCLAIR
DR. C. J. MACKENZIE	R. E. STAVERT
M. W. MACKENZIE	R. L. WELDON

### G. W. GRANT McCONACHIE

It is with deep regret that we mark the passing of G. W. Grant McConachie, President of Canadian Pacific Airlines, and a director of Columbia Cellulose Company, Limited since 1959. A recognized leader in the development of Canadian aviation, Mr. McConachie's guidance and qualities of leadership will be missed by his many friends and associates.

## CORPORATE OFFICERS

M. W. MACKENZIE, *Chairman of the Board*  
PAUL M. MARSHALL, *President*  
J. G. W. McINTYRE, *Executive Vice-President, Operations*  
A. E. PENNEY, *Executive Vice-President,  
Planning and Development*  
HARRY BOWLER, *Vice-President, Finance  
and Administration and Treasurer*  
EUGENE DeLUCA, *Vice-President, Engineering*  
C. B. DUNHAM, *Vice-President, Forestry*  
CLEMENT GARSIDE, *Vice-President, Interior Operations*  
W. E. D. GRAY, *Vice-President, Marketing*  
G. MARTIN GREER, *Secretary*  
G. R. MATTHEWS, *Assistant Secretary*  
J. G. ELLIOTT, *Controller*

## TRANSFER AGENTS

COMMON	MONTREAL TRUST COMPANY, <i>Vancouver, Toronto, Montreal</i> BANKERS TRUST COMPANY, <i>New York</i>
PREFERRED	THE ROYAL TRUST COMPANY, <i>Vancouver, Toronto, Montreal</i>

## REGISTRARS

COMMON	THE ROYAL TRUST COMPANY, <i>Vancouver, Toronto, Montreal</i> THE CHASE MANHATTAN BANK, <i>New York</i>
PREFERRED	THE ROYAL TRUST COMPANY, <i>Vancouver, Toronto, Montreal</i>

## STOCK LISTINGS

VANCOUVER, TORONTO & MONTREAL STOCK EXCHANGES

## AUDITORS

PEAT, MARWICK, MITCHELL & CO., *Vancouver*

## ANNUAL MEETING

WEDNESDAY, APRIL 20, 1966 - *Vancouver*

### OUR NEW SYMBOL

Our cover develops the theme of our new Columbia Cellulose Company, Limited trademark which replaces our Canada goose symbol. We already share with other members of the Celanese group mutual benefits in technology, financing and production. It is now to our growing advantage to be recognized in the market places of the world by a trademark which bears a common resemblance to those of our affiliates in twenty-four other countries.



# COLUMBIA CELLULOSE COMPANY, LIMITED

---

MUtual 4-8311

1030 WEST GEORGIA STREET, VANCOUVER 5, B.C.

March 8, 1966

## TO THE SHAREHOLDERS

The annual report of the directors, the financial statements for the year 1965 and the auditors' report to the shareholders are set out herein.

Net earnings for the year were \$3,341,662, equivalent to 34 cents per common share, after payment of \$804,208 in dividends on preferred shares. Allowance for depreciation, amortization and depletion of fixed assets was made in the amount of \$6,720,150 and \$3,040,000 was provided for present and future taxes on income.

Three major factors contributed to the decrease in earnings. In the early months of the year, British Columbia suffered the most severe weather conditions in many years and these seriously restricted logging and mill operations in both the northern and interior areas. Later in the year, a failure of the recovery boiler at the Castlegar pulp mill required that the mill be shut down for three weeks. Weather again created hardships for the Prince Rupert pulp mill when, during the summer, the area suffered the first drought in fifty years. Although it was not necessary to shut the mill for lack of water, some quarter of a million dollars was spent in providing emergency supplies to tide us over the dry spell.

The construction of the Skeena Kraft project and the related facilities, despite the tight labour and materials situation, is proceeding on schedule.

Markets for the company's products remained strong during the first three quarters of 1965 with some weakening becoming evident in overseas markets for kraft pulp during the fourth quarter. Throughout the year, however, sales were limited only by the ability of the manufacturing facilities to supply product.

Markets for dissolving pulp and lumber are expected to remain steady during 1966, both as regards volume demand and price. The weakness in kraft pulp prices which was experienced in certain off-shore markets late last year is an indication of the pressure on this product which can be expected as new mills come on stream during the next few years. The company has strengthened its own selling organization and, through Skeena Kraft, has joined with one of the foremost European producers and marketers of forest products.

On behalf of the Board,

M. W. Mackenzie,  
*Chairman.*

Paul M. Marshall,  
*President.*

## FINANCIAL RESULTS AND CHANGES

Net sales for the year amounted to \$65,530,065, an increase of 5% over 1964, while operating profit before interest and non-cash charges was reduced to \$16,724,869 from \$18,652,429 in the previous year.

Depreciation, amortization and depletion, calculated on the same basis as in previous years, amounted to \$6,720,150 compared with \$6,671,379 in 1964. Provision for present and future taxes on income was again made at approximately the full rate of 50% aggregating \$3,040,000 compared with \$3,980,000 in the prior year.

Net profit for the year was \$3,341,662 compared with \$4,077,378 in 1964. After payment of \$804,208 in dividends on preferred shares, the year's results were equivalent to 34¢ per common share, compared with 50¢ per common share after payment of \$350,000 in preferred dividends in the previous year.

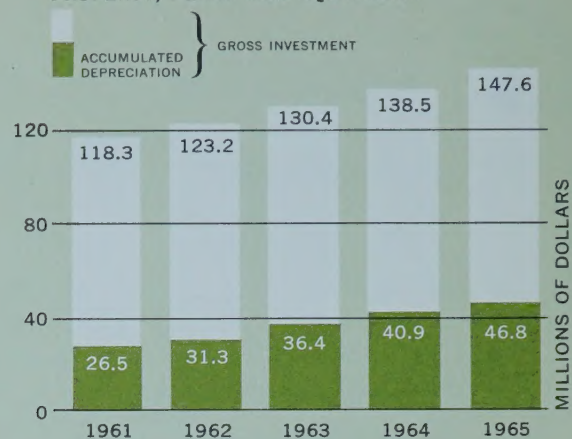
In April the company issued to the Canadian public 830,000 \$1.20 convertible preferred shares. These shares which have a par value of \$25 were issued at \$26 and are convertible each into two common shares of the company for a period of ten years to April 1, 1975. The shares are callable at any time, at the option of the company, at \$26. The proceeds of the issue were used as to \$5 million to retire the then outstanding 7% preferred shares of the company and as to the remainder to finance the company's investment in Skeena Kraft Limited.

In July Skeena Kraft Limited, the company's 60% owned subsidiary, sold privately U.S. \$40 million 5¾% First Mortgage 20-year bonds. These bonds were sold at \$99 to yield 5.43%.

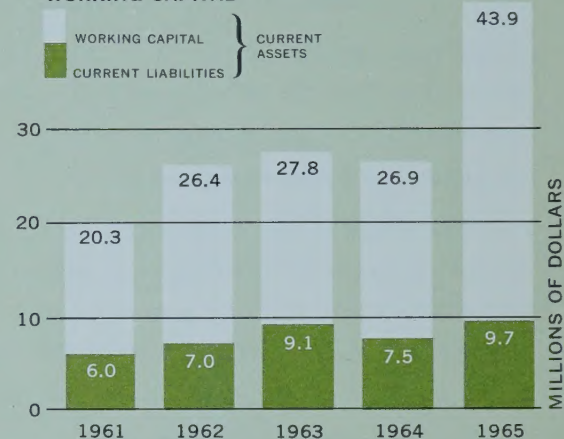
Cash generated during the year amounted to \$12,339,000, a decrease of \$536,000 from the previous year. To this was added \$15,780,000 being the net proceeds of the two preferred share transactions and \$17,608,401 being the net proceeds of the draw-downs to date under the Skeena Kraft First Mortgage trust deed.

Of these amounts \$32,150,000 has been applied to capital expenditures and \$2,624,000 was absorbed by working capital changes resulting from the increase in volume of the existing operations. A total of \$2,284,969 was paid out in dividends on preferred and common shares. The net result of the operations of the company for the year was an increase in cash and short-term notes from \$4,274,970 to \$16,013,413 with \$24,932,988 yet to be drawn down from the trustee for the Skeena Kraft bonds.

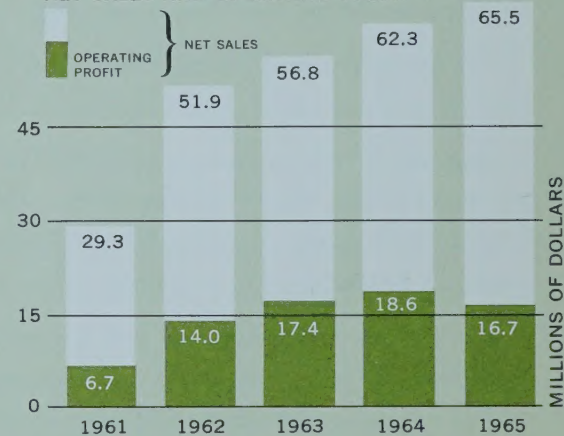
### PROPERTY, PLANT AND EQUIPMENT



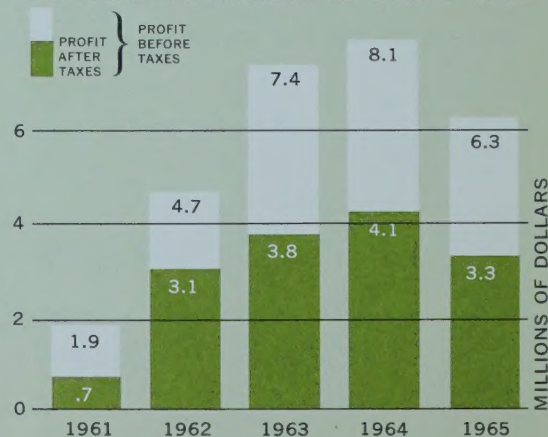
### WORKING CAPITAL

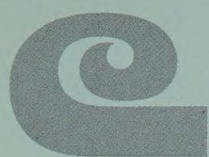


### NET SALES AND OPERATING PROFIT



### NET PROFIT AND PROVISION FOR INCOME TAXES





# COLUMBIA CELLULOSE

COMPANY, LIMITED and its subsidiary companies

## FINANCIAL SUMMARY AND REVIEW

(in thousands of dollars)

	1965	1964	1963	1962	1961
Net sales.....	\$ 65,530	\$ 62,347	\$ 56,768	\$ 51,907	\$ 29,305
Profit on operations before interest, depletion and amortization.....	16,725	18,652	17,431	14,048	6,689
Cost of borrowed money (net).....	3,623	3,924	3,818	3,214	1,096
Depreciation, amortization and depletion.....	6,720	6,671	6,244	6,129	3,685
Net profit before income taxes.....	6,382	8,057	7,369	4,705	1,908
Provision for income taxes.....	3,040	3,980	3,590	1,570	1,249
Net profit for the year.....	3,342	4,077	3,779	3,135	659
Current assets:					
Cash and equivalent.....	16,013	4,275	6,899	9,084	3,662
Inventories.....	17,923	14,949	14,216	11,251	12,487
Other current.....	10,001	7,724	6,667	6,047	4,161
	<u>43,937</u>	<u>26,948</u>	<u>27,782</u>	<u>26,382</u>	<u>20,310</u>
Current liabilities.....	9,703	7,538	9,095	7,029	6,022
Working Capital.....	<u>34,234</u>	<u>19,410</u>	<u>18,687</u>	<u>19,353</u>	<u>14,288</u>
Fixed assets at cost.....	147,612	138,510	130,450	123,185	118,347
Accumulated depreciation.....	46,809	40,893	36,381	31,286	26,509
Net fixed assets.....	<u>100,803</u>	<u>97,617</u>	<u>94,069</u>	<u>91,899</u>	<u>91,838</u>
Construction in progress.....	22,866	—	—	—	—
Outstanding debt.....	104,880	61,742	61,742	61,742	44,439
Minority interest.....	4,000	—	—	—	—
Preferred shares (par value).....	20,750	5,000	5,000	7,500	25,000
Common equity.....	47,447	46,360	44,108	42,203	39,768

## INTERIOR OPERATIONS

Strong demand for Celgar Kraft pulp was evident during the year, particularly in the North American market. Pulp price levels were maintained in all areas except Europe where price erosion took place through the year and was formalized in the last quarter when European prices dropped approximately \$12 per ton. This softening was partially offset by diversion of some sales to the North American market where prices remained firm.

In conjunction with Research and Development Division personnel, the Castlegar pulp mill successfully developed and commenced production of a premium Northeastern type of kraft pulp. It is anticipated that this new grade will materially assist our sales department during the next few years by broadening the range of pulps available for offer to a competitive market.

A serious boiler failure disrupted the Celgar pulp operation in the second quarter. Although some of the direct loss was covered by insurance, this failure accounted for 21 days of lost production. The financial losses involved were partially offset by an improved sales mix, and by a reorganization of planned shutdowns with the result that production for the year was 177,554 tons, a net of 7,825 tons below the previous high achieved in 1964.

In the Celgar Lumber Division, new production and selling records were set when more than 115 million board feet of lumber were shipped during the year. Selling prices for lumber remained fairly constant throughout the year but were slightly lower than 1964. Present outlook reveals a fairly strong demand for the first quarter of 1966.

Log production by the Celgar Woods Division totalled 382,000 cunits of which some 326,000 cunits were harvested on the Tree Farm. Flexibility of operation was demonstrated during the year by the woods

division to provide for increased saw log consumption and reduced pulp requirements. Log inventories at the year end were successfully brought into satisfactory balance between pulp logs and saw logs.

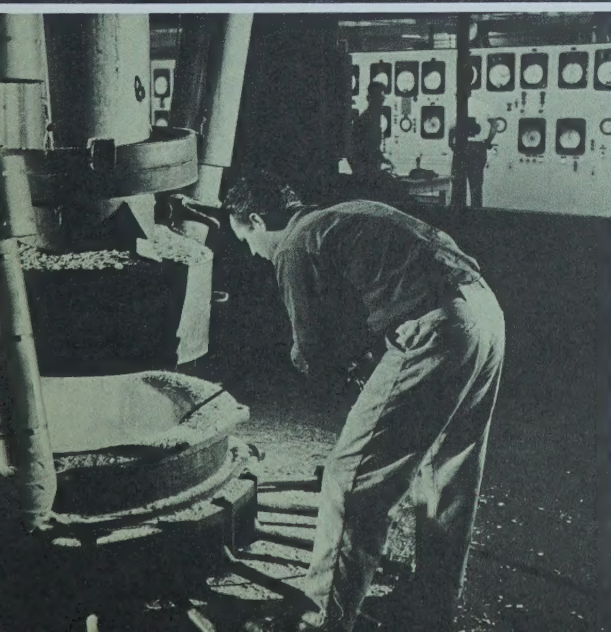
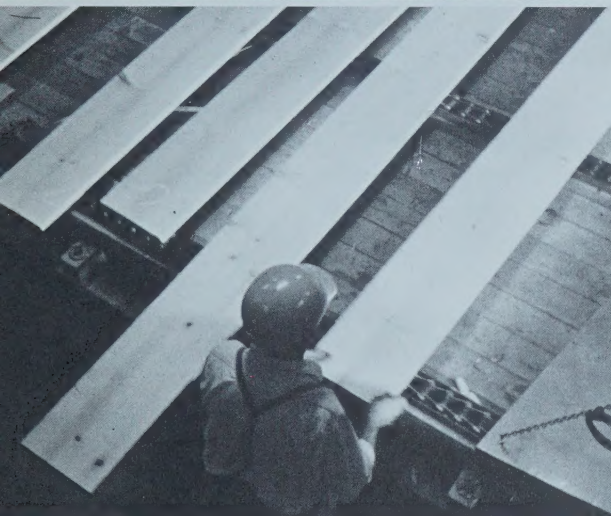
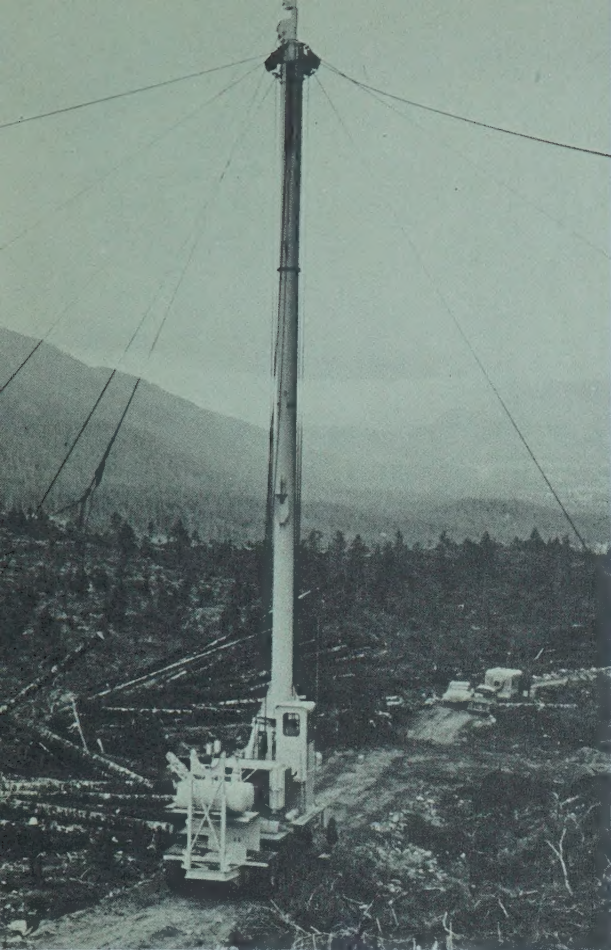
The linear programme in the Interior Operations has now been developed to the point where logging operations are largely being directed by management's use of computer data. Some further refinements are considered necessary before the programme can become totally operational.

The new water line by-passing the construction of the High Arrow Dam on the Columbia River was installed during the year and is now functioning. Two log-handling cranes have now been ordered by the B.C. Hydro to lift log bundles out of the lake, by-pass the dam construction and lower them back into the water above the company's mills. This interim method will later be replaced by the use of a lock system incorporated in the dam construction.

## NORTHERN OPERATIONS

The Prince Rupert Pulp Division established a production record of 181,517 tons of dissolving grade pulps, an increase of 13% over the previous year, with the emphasis being on premium grades. This achievement, representing a 530-ton daily average, was reached in spite of one of the worst winters in the history of the province.

It is significant that conversion costs per ton of dissolving pulp were the lowest in the history of the Prince Rupert mill. However, this favourable picture was offset by log and chip manufacturing costs which were greatly increased due to the winter weather conditions which affected the province's forest industries as a whole. The net result was a higher total production cost.



Sales were up 8½% over 1964 to 173,000 tons allowing for some inventory build-up from a very low position at the beginning of the year. Sales gains were made in the higher gross margin grades. Specialty pulps produced for manufacturers in the chemicals and plastics fields made further market gains.

A prolonged drought came close to curtailing sulphite pulp production during the latter part of the summer. Loss of production was avoided only by determined action on the part of local management to reduce water usage while undertaking expensive but necessary stream development and improvement to extend the available supply.

Total log production amounted to 393,226 cunits of which 259,741 cunits were from T.F.L. No. 1 and 133,485 cunits from outside purchases.

Plans were further developed for the combined procurement of wood for the existing Columbia Cellulose mill and the new Skeena Kraft project. Road construction extended the system 80 miles eastward along the south bank of the Nass River to bring access to T.F.L. No. 40. Granted to Skeena Kraft in August of 1964, T.F.L. No. 40 consists of 1.4 million acres of productive forest land in the headwaters of the Nass River inland from T.F.L. No. 1.

Summer lightning storms started 50 forest fires which caused a loss of production while crews were employed in fire fighting.

*Top: Self-propelled mobile spars have moved into the woods to replace the historic high rigger so famous on Canada's West Coast.*

*Centre: The Celgar sawmill is a highly automated plant producing a wide range of quality lumber. Typical of the skills required in this type of operation is this lumber grader who must make some 7,000 decisions in the course of a day's work.*

*Bottom: Filling the 25-ton digester takes 45 minutes. The Prince Rupert sulphite mill has nine of these giant vessels.*

Prompt action prevented serious loss of standing timber and log production levels were restored by year end.

A one-year labour contract was signed on an industry-wide basis to provide a 6% wage increase and fringe benefits to workers.

### **SKEENA KRAFT LIMITED**

The year's major undertaking, construction of the world's largest single-line bleached kraft pulp mill at Prince Rupert, progressed rapidly. This \$80 million project, under the name of Skeena Kraft Limited, is 60% owned by Columbia Cellulose Company, Limited and 40% by Svenska Cellulosa Aktiebolaget, the leading Swedish manufacturer and distributor of forest products. Columbia Cellulose has the construction, operating and management responsibilities for the project. At year end such phases as the foundation work, the general structural contracts, and the storage dams and water supply pipeline to serve both mills were nearing completion and buildings were being enclosed to permit the installation of equipment.

To meet housing shortages and to aid in recruiting qualified operating personnel, one hundred top quality houses are under contract or nearing completion and a further hundred are in the planning stage. These are being offered for sale at cost to employees and the community at large. As a result of this and other recruiting efforts, a number of key staff has been engaged. Extensive training and apprenticeship programmes have been set up to ensure that qualified operating and trades personnel will be available.

Organizational studies are under way for staffing and manning plans for the combined sulphite-kraft pulp mill complex to ensure that the maximum economies are achieved in combining the new operations with those of the existing mill.

### **OUTLOOK**

Prices for dissolving pulp and lumber remained steady during the year and are expected to continue during 1966. Prices for kraft pulp, on the other hand, softened in some overseas markets, notably Europe, late in 1965. Europe does not constitute a significant volume market for the company at the present time, but a substantial portion of the output of the new Skeena Kraft mill is planned for Europe and other off-shore markets.

Last year's report foresaw the possibility of some world surplus of kraft pulps in the years immediately ahead. That possibility has been transformed into a certainty. The area of uncertainty now lies in the magnitude of the surplus and the duration of its existence.

The present excess capacity, notably in the Scandinavian countries, is certainly within manageable limits. However, substantial new capacity, particularly in North America, will become available during 1966 and the next few years. The market should be capable of absorbing these tonnages in an orderly fashion provided producers show foresight in distributing their product.

Costs of labour and raw materials have risen steadily in the last few years. To date, these increases have, in the main, been counteracted by marginal increases in production and, in some cases, higher selling prices. With an increasingly competitive market and, at very best, no improvement in selling prices, the company has intensified its programme to reduce costs in all areas.

The tremendous forest resources that the company now manages together with its modern mills place it in an advantageous position to benefit from the undoubted substantial growth in world demand for pulps once the immediate situation is past.



## COLUMBIA CELLULOSE

COMPANY, LIMITED and its subsidiary companies

### CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1965 with 1964 comparison

	1965	1964
Net sales.....	\$65,530,065	62,347,417
Cost of goods sold.....	45,173,628	40,983,138
Selling, administrative and research expenses.....	3,631,568	2,711,850
	48,805,196	43,694,988
Operating profit before depreciation.....	16,724,869	18,652,429
Other charges, net:		
Interest on mortgage bonds (less \$845,732 capitalized in 1965).....	3,975,431	3,962,684
Other interest expense.....	54,892	23,157
	4,030,323	3,985,841
Less interest income.....	407,266	62,169
	3,623,057	3,923,672
Net profit before the undernoted provisions.....	13,101,812	14,728,757
Depreciation, amortization and depletion.....	6,290,023	6,241,253
Amortization of mill start-up expenses.....	361,852	361,852
Amortization of financing expenses.....	68,275	68,274
	6,720,150	6,671,379
Net profit before income taxes.....	6,381,662	8,057,378
Provision for income taxes (Note 5).....	3,040,000	3,980,000
Net profit for the year.....	\$ 3,341,662	4,077,378

### CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

for the year ended December 31, 1965

Premium on issue of \$1.20 cumulative redeemable convertible preferred shares.....	\$ 83,000
Less expenses of issue.....	53,241
Contributed surplus at December 31, 1965.....	\$ 29,759

### CONSOLIDATED STATEMENT OF EARNED SURPLUS

for the year ended December 31, 1965 with 1964 comparison

	1965	1964
Earned surplus at beginning of year.....	\$12,005,013	9,758,396
Net profit for the year.....	3,341,662	4,077,378
	15,346,675	13,835,774
Dividends:		
Preferred shares.....	804,208	350,000
Common shares.....	1,480,761	1,480,761
	2,284,969	1,830,761
Earned surplus at end of year (Note 4).....	\$13,061,706	12,005,013

See accompanying notes to consolidated financial statements.



**COLUMBIA  
CELLULOSE**

COMPANY, LIMITED and its subsidiary companies

**CONSOLIDATED**

December 31, 1965

**ASSETS**

	1965	1964
CURRENT ASSETS:		
Cash.....	\$ 5,711,156	4,274,970
Short-term notes at cost plus accrued interest.....	10,302,257	—
Accounts receivable:		
Trade.....	7,203,623	6,669,014
Other.....	2,039,178	870,866
Affiliates.....	667,915	8,592
Inventories (Note 2).....	17,922,504	14,949,395
Prepaid expenses.....	90,335	175,409
Total current assets.....	43,936,968	26,948,246
CASH AND SHORT-TERM NOTES, held by trustee for bond- holders, for construction of pulp mill (Notes 3 and 4).....	24,932,988	—
EMPLOYEE MORTGAGES, DEPOSITS AND PROPERTY FOR DISPOSAL.....	1,763,540	672,936
FIXED ASSETS, AT COST:		
Land.....	449,746	449,087
Timber licences, roads and related facilities.....	20,246,903	15,758,799
Buildings, machinery and equipment.....	126,915,782	122,301,942
	147,612,431	138,509,828
Less accumulated depreciation, amortization and depletion....	46,808,857	40,892,956
	100,803,574	97,616,872
Construction in progress (Note 3).....	22,865,976	585,574
	123,669,550	98,202,446
DEFERRED CHARGES, LESS AMOUNTS WRITTEN OFF:		
Timber reconnaissance.....	874,915	675,788
Financing expenses.....	664,383	136,547
Mill start-up expenses.....	271,383	633,235
	1,810,681	1,445,570
	<u>\$196,113,727</u>	<u>127,269,198</u>

See accompanying notes to consolidated financial statements.

## BALANCE SHEET

1964 comparison

### LIABILITIES

	1965	1964
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued charges.....	\$ 6,848,097	4,788,242
Accrued bond interest.....	2,832,069	1,973,590
Income taxes payable.....	23,000	775,876
Total current liabilities.....	9,703,166	7,537,708
 <b>OTHER LIABILITIES:</b>		
First mortgage bonds (Note 4).....	104,879,683	61,742,183
Timber sales purchase agreement.....	478,119	50,000
	105,357,802	61,792,183
 RESERVE FOR FUTURE INCOME TAXES (Note 5).....	8,856,000	6,579,000
 <b>MINORITY SHAREHOLDER'S INTEREST IN SUBSIDIARY,</b>		
Skeena Kraft Limited.....	4,000,000	—
 <b>SHAREHOLDERS' EQUITY (Notes 4 and 6):</b>		
Share capital:		
\$1.20 cumulative redeemable convertible preferred shares of \$25 each. Authorized and issued during the year for cash 830,000 shares.....	20,750,000	—
7% cumulative redeemable preferred shares of \$2 each. Authorized 2,500,000 shares. Redeemed during the year 2,500,000 shares.....	—	5,000,000
Common shares of no par value. Authorized 10,000,000 shares; issued 7,403,803 shares.....	34,355,294	34,355,294
	55,105,294	39,355,294
Contributed surplus, per accompanying statement.....	29,759	—
Earned surplus, per accompanying statement.....	13,061,706	12,005,013
	68,196,759	51,360,307
 <b>COMMITMENTS (Note 7)</b>		
	<u>\$196,113,727</u>	<u>127,269,198</u>

Signed on behalf of the Board:

M. W. MACKENZIE, *Director.*

PAUL M. MARSHALL, *Director.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1965

1. **CONVERSION OF FOREIGN CURRENCIES:** Current assets and current liabilities in foreign currencies have been converted into Canadian dollars at the official rates of exchange in effect at December 31, 1965. The mortgage bonds payable in U.S. funds have been converted at rates prevailing at the time of receipt of the funds secured under the bonds.

2. **INVENTORIES:** Inventories at December 31, 1965, were valued at average cost or less, and were not in excess of market. A summary of the inventories is as follows:

Raw materials.....	\$ 12,351,819
Work in process.....	27,124
Finished goods.....	2,417,701
Stores and supplies.....	3,125,860
	<u>\$ 17,922,504</u>

3. **CONSTRUCTION IN PROGRESS:** The company, in conjunction with Svenska Cellulosa Aktiebolaget of Sweden, has formed a company, Skeena Kraft Limited, which is constructing a kraft pulp mill adjacent to the company's Prince Rupert mill at an estimated cost of \$56,400,000. Skeena Kraft Limited is 60% owned by the company and 40% by Svenska Cellulosa Aktiebolaget. In addition, the company, at an estimated cost of \$14,000,000, is increasing its basic utilities which will serve the kraft pulp mill and the existing sulphite mill. At December 31, 1965, total expenditure incurred on these projects was \$22,865,976 and commitments with respect to construction amounted to approximately \$20,630,000.

4. **FIRST MORTGAGE BONDS:**

Celgar Limited, a wholly-owned subsidiary: U.S. \$60,000,000 6½% First Mortgage 20-year bonds due January 2, 1981, with an annual sinking fund requirement from 1967 through 1980 of U.S. \$4,000,000.....	\$ 61,742,183
Skeena Kraft Limited, a partly-owned subsidiary: U.S. \$40,000,000 5½% First Mortgage 20-year bonds due July 1, 1985, with annual sinking fund requirements of U.S. \$2,000,000 from 1971 through 1975; U.S. \$2,500,000 from 1976 through 1980; and U.S. \$3,500,000 from 1981 through 1984.....	43,137,500
	<u>\$104,879,683</u>

The first mortgage bonds of Celgar Limited are secured by a fixed and floating charge on the assets of that company, the net book value of which at December 31, 1965 amounted to \$134,320,182. The first mortgage bonds of Skeena Kraft Limited are similarly secured on the assets of that company, the net book value of which at December 31, 1965 amounted to \$55,177,381.

Among other things, the terms of the trust deed securing the bonds of Celgar Limited provide that Celgar Limited will not declare or pay dividends, other than stock dividends, or reduce its capital stock except to the extent of 80% of its consolidated net profit from January 1, 1961. The effect of this restriction at December 31, 1965 is to limit to \$10,786,000 the amount of the consolidated earned surplus of Columbia Cellulose Company, Limited at that date, which may be applied to the payment of dividends by that company. There are similar restrictions in the trust deed securing the bonds of Skeena Kraft Limited which will apply when Skeena Kraft Limited commences operations.

5. **INCOME TAXES:** It is expected that depreciation for tax purposes will be claimed in 1965 in excess of that recorded in the accounts and accordingly the amount provided for income taxes in the consolidated statement of earnings includes \$2,277,000 for income taxes that would otherwise have been payable. This amount is included in "Reserve for future income taxes" in the balance sheet. In future years when the depreciation recorded in the accounts may exceed that allowable for tax purposes, the tax on those excess amounts would be charged against the reserve and not against the income of those years.

6. **SHARE CAPITAL:** The \$1.20 cumulative redeemable convertible preferred shares are redeemable in whole or in part at the option of the company at any time at \$26 per share, plus accrued dividends. The holders of such shares are entitled to convert each \$1.20 preferred share into two common shares at any time up to April 1, 1975.

Under a stock option plan adopted in April, 1963, 100,000 common shares were reserved for issue to officers and employees. Options have been granted, at the market price at date of issue, on 57,400 common shares, including options granted during the year on 12,000 common shares. The options, which expire December 31, 1973, are exercisable as to 20% a year on a cumulative basis from April 19, 1964. Options on 800 shares have been exercised to December 31, 1965.

7. **COMMITMENTS:** At December 31, 1965, capital commitments amounted to approximately \$780,000 in addition to the commitments referred to in Note 3.

In 1965, the company entered into a 20-year lease for space in an office building at an annual rental of approximately \$200,000.

8. **SELLING, ADMINISTRATION AND RESEARCH EXPENSES:** Remuneration of directors, including salaries as executive officers, amounted to \$143,431 in 1965.

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Columbia Cellulose Company, Limited and its subsidiary companies as of December 31, 1965 and the consolidated statements of earnings, contributed surplus and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of earnings, contributed surplus and earned surplus present fairly the financial position of the companies on a consolidated basis at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C., January 25, 1966

PEAT, MARWICK, MITCHELL & CO., Chartered Accountants.



**COLUMBIA  
CELLULOSE**

COMPANY, LIMITED and its subsidiary companies

**SOURCE AND APPLICATION OF FUNDS**

(in thousands of dollars)

**SOURCE OF FUNDS:**

	1965	1964
Funds provided by operations:		
Net profit for the year.....	\$ 3,342	4,077
Provision for depreciation and other non-cash charges.....	6,720	6,671
Provision for future income taxes.....	2,277	2,127
Net funds provided by operations.....	<u>12,339</u>	<u>12,875</u>
Funds provided by capital and long-term debt changes:		
Issue of \$1.20 preferred shares – net.....	20,780	—
Redemption of 7% preferred shares.....	(5,000)	—
Issue of common shares in subsidiary to minority shareholder.....	4,000	—
Sale of 5 $\frac{3}{8}$ % First Mortgage bonds (less amounts held by Trustee) – net.....	17,608	—
Net funds provided by capital and long-term debt changes....	<u>37,388</u>	<u>—</u>
NET FUNDS PROVIDED.....	49,727	12,875

**APPLICATION OF FUNDS:**

Capital expenditures – net cash outlay.....	9,870	9,649
Construction in progress – new pulp mill.....	22,280	585
Dividends paid.....	2,285	1,831
Increase in receivables, inventories, prepayments, etc. less change in payables and accrued items.....	2,624	3,427
Others.....	930	7
NET FUNDS APPLIED.....	37,989	15,499
EXCESS OF FUNDS PROVIDED OVER FUNDS APPLIED.....	11,738	(2,624)
OPENING BALANCE OF CASH AND EQUIVALENT.....	4,275	6,899
CLOSING BALANCE OF CASH AND EQUIVALENT.....	<u>\$16,013</u>	<u>4,275</u>



## COLUMBIA CELLULOSE

COMPANY, LIMITED and its subsidiary companies

### RESEARCH AND DEVELOPMENT DIVISION

During the past year the Research and Development Division continued active support of present operations and also initiated longer term exploratory research in support of the company's long-range growth objectives. New methods of pulp processing and the development of new forest industry products of potential value to the company are being investigated. Several major process innovations, currently under study, appear to hold promise for the future.

For Prince Rupert the emphasis has been on research into major pulp quality changes in order to place the company in an advanced competitive position in acetate pulp markets, and to provide a broader acceptance of our viscose pulps. These studies are progressing satisfactorily.

Evaluation of the yields and processing characteristics of species in the company's northern woods resources was continued during the year to provide accurate information for optimum utilization of the wood in both operations of the Skeena Kraft-Prince Rupert sulphite mill complex.

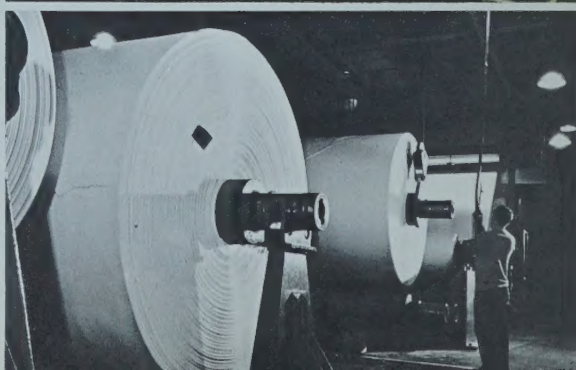
In support of the Celgar pulp mill, a new premium pulp, competitive with Northeastern pulp grades, was developed, and several mill trials were successfully completed and market evaluated during the year. Work on the development of further specialty grades is continuing.

*Top: Viscose pulp from Prince Rupert is manufactured into filament yarn and given tensile, elongation, stretch and recovery tests on Instron equipment at the Research and Development lab.*

*Top centre: Chip samples from our Tree Farm Licences are cooked in tiny "bomb" digesters under simulated mill conditions to establish yield, fibre and pulping characteristics at the new Skeena Kraft mill.*

*Bottom centre: At the mill pulp testers take samples on a regular basis to ensure that quality standards are maintained.*

*Bottom: The result is a high quality product for the eventual use of textile, chemical, plastics or fine paper manufacturers.*



*Top right: Large forest products producers help to create secondary industry. Here a self-propelled, rubber-tired skidder, developed by a local manufacturer with the co-operation of our Celgar Woods Division, is shown hauling pulp logs to a landing.*

*Right: Recruiting trained personnel is an ever-increasing problem for industry today. Columbia Cellulose goes to college to talk with engineers, chemists and foresters to tell of the opportunities available within the company.*

*Left: The Skeena Kraft project is well on schedule for late 1966 start-up. Giant vessels on left are continuous digesters with pulping group, machine room and warehouse to the right.*

